

Quarter 4 2015

Quarterly Economic Indicator

Scottish Chambers of Commerce



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Methodology

The Quarterly Economic Indicator is owned and produced by the Scottish Chambers of Commerce Economic Development Intelligence Unit, in collaboration with the Fraser of Allander Institute of the University of Strathclyde.

477 firms responded to the Q4 2015 edition of the Indicator.

Results are reported as the “net % balance”, calculated by deducting the % of firms reporting a decrease from the % of firms reporting an increase.

E.g. If 50% of firms report an increase in profits over the quarter (compared with the previous quarter) and 49% report a decrease, the net % balance of firms reporting an increase in profits is $(50-49 = +1)$.

A negative net % balance generally indicates contraction and a positive net % balance expansion.

The Economic Development Intelligence Unit is available to be commissioned for a wide range of economic and business related research. For more information on the Unit, further information on the Quarterly Economic Indicator results, or details of sponsorship availability, please contact:

Garry Clark

Head of Economic Development Intelligence Unit

Scottish Chambers of Commerce

Office No. 0141 204 8316

Mobile No. 07795 158 137

Email address: gclark@scottishchambers.org.uk

Summary

Over the fourth quarter of this year, there was a mixed performance throughout Scotland's key business sectors. The Construction and Manufacturing sectors reported strong results, indicating continued growth following positive results in Q3 2015. While the Scottish Tourism sector had mixed results, the Retail & Wholesale sector experienced a decline with many of the indicators entering into negative territory. Both Retail & Wholesale and Tourism industries, overall, had considerably poorer results in Q4 2015 compared to the same quarter last year. Additionally, results over the quarter, indicated a further contraction within the Financial & Business Services sector.

Overall, the net % balance of business optimism was lower in Q4 for the majority of sectors in comparison to the same quarter in 2014. Low levels of optimism may be due to a significant number of firms citing concerns regarding the impact that the Living Wage, low oil prices and business rates will have on their business. The only sector that experienced increased growth in comparison to the same quarter last year was the Manufacturing sector, in which business optimism had a net % balance of +14- this is also marginally greater than the figure reported in Q3 2015.

Results recorded for the Financial & Business Services sector continued to show the impact that the low global market price for Brent crude oil is continuing to have on the Scottish economy. Oil prices remained low throughout 2015, falling to below \$40 per barrel by the year-end, and was a commonly cited concern for businesses throughout the year. Not only has the performance of oil and gas service businesses dampened results in the Financial and Business Services sector, but the continued decline in global oil prices now looks to be extending beyond those businesses operating directly in the sector.

Key Findings

CONSTRUCTION

Sales Revenue

Sales revenue was positive over the quarter across the sector with 55.3% of businesses reporting an increase in total sales revenue, giving a net % balance of +38.

This increase can largely be attributed to domestic (Scotland) sales with just under half (47.8%) of firms reporting an increase in Q4 2015. Future expectations for sales revenue are very encouraging, with almost 79% of respondents indicating that sales revenue will either be maintained or increased. Overall, results across the sector were fairly positive, but indicating slowing growth in comparison to the same quarter last year.

Investment

Investment expenditure was positive during Q4 2015, with only 11% of businesses reporting a decrease in investment expenditure, giving a net % balance of +30.

Growth was recorded for both capital and training investment with net % balances of +22 and +40 respectively. This is the highest reported net % balance reported for training investment since Q4 2014. Investment expenditure is expected to continue to grow in Q1 2016, shown by a net % balance of +23.

FINANCIAL & BUSINESS SERVICES

Overall

After disappointing figures in Q3 2015, with several indicators entering negative territory; **results for Q4 2015 have suggested a further contraction within the Financial & Business Services sector.** For the third quarter in a row a negative net balance has been recorded in terms of profit (-25). The lowest recorded figure since Q1 2014. Additionally, it was the third consecutive quarter that respondents reported declining levels of employment, with a net % balance of -12.

Sales Revenue/Cash-flow

Following four quarters with positive trend balances for sales revenue across the sector, a negative net % balance of -15.6 was recorded during Q4 2015. This is the first time that the trend balance for sales revenue has been in negative territory since records began in Q4 2014. A decline in sales revenue over the quarter may explain the declining levels of cash-flow for businesses within the sector, with 41% of firms experiencing a decrease over the quarter, giving a negative net % balance of -22.5- the lowest figure recorded since the sector was introduced into the indicator in Q1 2014.

Key Findings

MANUFACTURING

Sales Revenue

Overall, the manufacturing sector was buoyant in Q4 2015. There was an increase in sales revenue in Q4 2015 with a net % balance of +13.7. This is the fifth consecutive quarter that sales revenue has been in positive territory. Growth was experienced throughout the sector in terms of sales from Scotland (+8), rest of UK (+16) and exports (+8). This trend is expected to continue in Q1 2016 with 41.2% of firms expecting sales to increase, giving a net % balance of +14. Encouragingly, future expectations for export revenue over the next quarter is positive with a net % balance of +16.

Employment

A net % balance of +24 was recorded for total employment over the quarter, with 43.1% of businesses in the sector reporting an increase in the number of staff. Employment levels are expected to be maintained or increased in Q4 with 56% of businesses expecting no change and 34% anticipating an increase. **This is mirrored in the number of firms recruiting staff overall in Q4 (67.3%). However, from those businesses currently recruiting staff, almost one third (30.3%) are currently facing difficulties in terms of recruitment.**

RETAIL & WHOLESALE

Employment

Over the quarter retail and wholesale firms reported a decline in employment levels, reflected by a net % balance of -5. However, with 41.9% of businesses in the sector recruiting and a positive net % balance of +9 in terms of expected employment levels over the next quarter, employment levels may increase in Q1 2016.

Expectations

Despite negative trends over the quarter in terms of sales and profit, with net % balances of -26, future expectations for the retail and wholesale sector in terms of sales revenue and investment are promising, with 41.9% of businesses expecting sales revenue to increase in Q1 2016, resulting in a net % balance of +19. Trends for future investment are also encouraging with a positive trend balance of +12, with 73.9% of respondents either maintaining or increasing investment expenditure over the next quarter.

Key Findings

TOURISM

Sales Revenue/Profits

The same number of businesses in the industry reported an increase in total sales as firms that reported a decrease, resulting in a net % balance of 0.

While positive balances were reported for domestic (Scotland) sales and online sales, with a net % balances of 9 and 2 respectively, there was a negative trend balance for sales from the rest of UK (-11).

Profits

Profits were down over the quarter, with approximately 40% of businesses indicating a decrease in profits and giving a net % balance of -15. This trend could explain why 53.2% of firms expect to increase their prices in Q1 2016 in order to increase profit margins.

Investment

Investment expenditure was positive during Q4 2015, with a net % balance of +25 reporting increased investment expenditure. Growth was recorded for both training and capital investment with net % balances of +17 and +29 respectively. Investment expenditure is expected to continue to grow in Q1 2016, shown by a net % balance of +17.

Expectations

Future expectations for the sector are negative in terms of sales revenue and employment levels. Approximately 42% of businesses expect a decrease in sales revenue over the next quarter. Additionally, more businesses in the industry expect to see a decrease in employment levels than an increase in Q1 2016, giving a negative net % balance of -9.

Construction

SALES REVENUE & CONTRACTS

More than half (55.3%) of firms reported an increase in total sales revenue in Q4 2015, giving a net % balance of +38. A rise in total contracts was also experienced with a net % balance of +7. Similar to Q3, this can be largely to a rise in private sector commercial contracts (+7), with results from public sector contracts remaining in negative territory with a net % balance of -9.

PROFIT

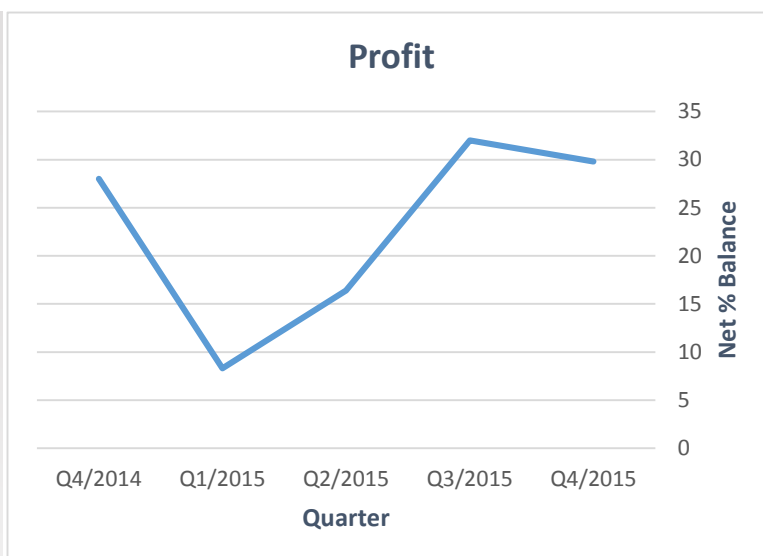
There was a positive net balance % balance of +24 recorded for profit, with 41.3% of firms experiencing an increase in profits over Q4 2015. This marks the third consecutive quarter that businesses in the sector have experienced growth in profits.

EMPLOYMENT

Almost half (48.9%) of all firms experienced an increase in employment over the quarter and the net % balance of +34 reported is higher than at any other time since Q2 2007. Employment levels are expected to be maintained in Q1 of 2016 with 91.5% of businesses expecting no change or anticipating an increase.

RECRUITMENT DIFFICULTIES

The number of firms actively recruiting staff over the quarter was at 68.9%, the highest figure recorded since Q3 2007. From this 64.5% are experiencing recruitment difficulties. Difficulty in recruiting staff also appears to be driving up wage costs with 45.7% of firms experiencing an increase.



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q4/15	Q3/15	Q4/14
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	34.0	36.2	29.8	4	4	23
Sales Revenue						
Total	55.3	25.5	17.0	38	33	45
Domestic (Scotland)	47.8	23.9	15.2	33	24	46
Rest of UK	11.6	16.3	7.0	5	9	8
Contracts						
Total	39.5	20.9	32.6	7	20	38
Public Sector	25.0	22.7	34.1	-9	-5	15
Private Commercial	22.7	40.9	15.9	7	20	35
House Building	16.3	25.6	14.0	2	15	21
Work In Progress	38.6	27.3	34.1	5	7	48
Investment						
Total	40.4	42.6	10.6	30	32	28
Capital	32.6	45.7	10.9	22	23	15
Training	48.9	35.6	8.9	40	34	22
Cashflow	37.0	45.7	17.4	20	4	30
Applied for Credit?			(yes)	28	24	28
Profits	41.3	39.1	17.4	24	14	33
Capacity Used (Ave. %)				86	78	82
Employment						
Total	48.9	36.2	14.9	34	33	21
Recruiting Staff			(yes)	69	63	55
Recruitment Difficulties			(yes)	65	48	19
Increased Wages?			(yes)	46	36	40
Average Pay Increase (%)				6.1		
Expectations Next Quarter						
Price Change	44.7	44.7	10.6	34	31	46
Sales Revenue	38.3	40.4	21.3	17	33	48
Investment	38.3	40.4	14.9	23	16	15
Employees	42.6	48.9	8.5	34	27	

Financial & Business Services

OPTIMISM & SALES

Optimism in the Financial & Business Services Sector remained in negative territory in Q4 of 2015, with a net % balance of -12. This is the lowest the trend balance for optimism has been since before Q3 2014. Additionally, there was a decline in sales over the quarter with 44.7% of businesses reporting a decrease in total sales, giving a net % balance of -16 in Q4 2015.

INVESTMENT

There was a negative net % balance of -10 recorded for expenditure on investment, this is first time a negative net % balance has been recorded since the sector was introduced to the indicator in Q1 2014. Moreover, with a net % balance of -3, most businesses across the sector do not expect investment expenditure to increase in Q1 2016.

PROFIT

Profits declined over the quarter for 46.7% of all businesses, giving a net % balance of -25. The lowest recorded figure since the sector was introduced to the Indicator in Q1/14.

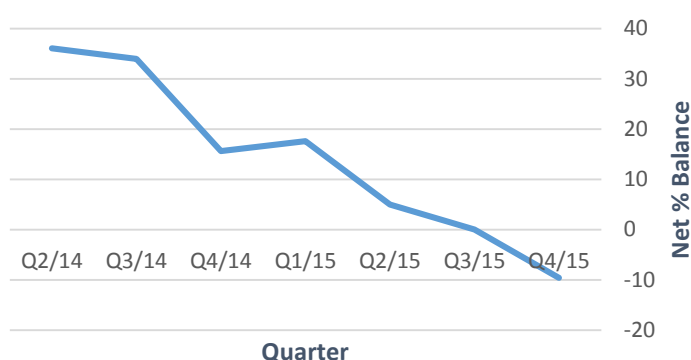
EMPLOYMENT

Employment levels decreased on balance across the sector with a net % balance of -12. This is the third consecutive quarter that employment levels were in negative territory. However, the net % balance of firms that expect to increase employment in Q1 2016 was +7.

“2015 was a testing year in an ever changing industry with increasing regulatory costs and challenges. None the less we invested in the recruitment of new quality financial planners and are very optimistic about 2016 and beyond.”

Andy Kerr, Director, McHardy Financial

Investment



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q4/15	Q3/15	Q4/14
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	25.1	37.7	37.2	-12	-1	25
Sales Revenue						
Total	29.1	24.6	44.7	-16	6	44
Domestic (Scotland)	23.5	22.4	45.4	-22	2	37
Rest of UK	9.5	27.5	28.0	-19	-8	11
Exports	7.9	14.7	21.1	-13	-3	3
Online	8.6	17.7	16.2	-8	-1	12
Investment						
Total	20.7	30.8	30.3	-10	0	16
Capital	21.7	31.3	28.3	-7	-2	16
Training	24.4	36.0	23.9	1	5	21
Cashflow	18.5	38.0	41.0	-23	-3	35
Applied for credit?			(yes)	12	8	9
Profits	21.8	28.9	46.7	-25	-8	36
Capacity Used (Ave. %)				70	70	79
Employment						
Total	17.9	50.5	30.1	-12	-4	29
Recruiting Staff			(yes)	41	47	52
Recruitment Difficulties			(yes)	29	18	20
Increased Wages?			(yes)	22	21	29
Average Pay Increase (%)				5.1	5	5
Concerns						
Business Rates			(yes)	21	20	
Expectations Next Quarter						
Price Change	23.1	59.3	17.6	6	5	36
Sales Revenue	34.5	29.5	34.0	1	13	50
Investment	19.5	44.6	22.6	-3	-5	13
Employees	23.5	59.5	17.0	7	6	

Manufacturing

ORDERS

A net % balance of +18 was reported for total orders, with 41.2% of businesses experiencing an increase in orders/sales. While growth in orders from Scotland and the rest of UK was experienced, with net % balances of +6 and +14 respectively; growth has eased over the quarter in terms of exports with a net % balance of +12.

WORK IN PROGRESS

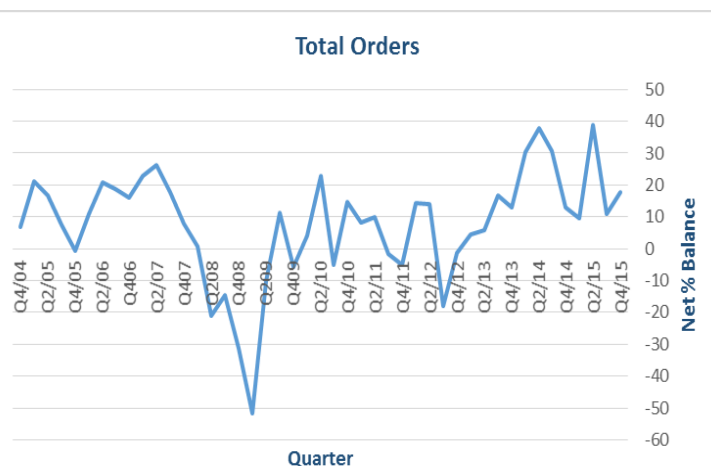
Almost half (47.1%) of businesses reported an increase in the level of work in progress in Q4, giving a net % balance of +29. This is the highest net % balance recorded in 2015. This may explain the average capacity used of 80.1%.

INVESTMENT

Only 2% of businesses reduced total investment expenditure over the quarter, giving a net % balance of +33. Firms in the manufacturing sector expect growth to continue in Q1 2016, reflected by a net % balance of +14.

EMPLOYMENT

43.1% of all firms experienced an increase in employment over the quarter giving a net % balance of +24. Employment levels are expected to be maintained or increased in Q1 of 2016 with 56% of businesses expecting no change and 34% anticipating an increase.



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q4/15	Q3/15	Q4/14
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	27.5	58.8	13.7	14	12	5
Sales Revenue						
Total	41.2	31.4	27.5	14	9	13
Domestic (Scotland)	21.6	52.9	13.7	8	2	-1
Rest of UK	35.3	37.3	19.6	16	6	9
Exports	31.4	29.4	23.5	8	16	10
Orders						
Total	41.2	35.3	23.5	18	11	13
Domestic (Scotland)	19.6	54.9	13.7	6	-3	6
Rest of UK	34.7	36.7	20.4	14	7	7
Exports	33.3	27.5	21.6	12	18	
Work in Progress	47.1	35.3	17.6	29	19	19
Investment						
Total	35.3	58.8	2.0	33	20	30
Capital	25.5	64.7	7.8	18	22	12
Training	25.5	72.5	0.0	25	16	21
Cashflow	25.5	49.0	25.5	0	5	-6
Applied for Credit?			(yes)	18	14	15
Profits	36.0	42.0	20.0	16	-7	4
Capacity Used (Ave. %)				80	78	77
Employment						
Total	43.1	37.3	19.6	24	12	26
Recruiting Staff			(yes)	67	81	56
Recruitment Difficulties			(yes)	30	30	24
Increased Wages?			(yes)	22	22	31
Average Pay Increase (%)				3.1	3	4
Expectations Next Quarter						
Price Change	36.7	59.2	4.1	33	17	34
Sales Revenue	41.2	31.4	27.5	14	24	27
Investment	21.6	64.7	11.8	10	23	28
Employees	34.0	56.0	10.0	24	34	

Retail & Wholesale

SALES REVENUE

A net % balance of -23 was reported over the quarter for sales, with 44% of firms experiencing a fall in sales. This is the lowest figure reported by the sector since Q2 2013. Yet, many businesses in the sector expect sales to grow in Q1 2016 with a net % balance of +19.

INVESTMENT

Total investment expenditure was down over the quarter with a net % balance of -2. The same number of firms reported an increase in both capital and training investment as those that reported a decrease, a net % balance of 0.

PROFITS

Profits were reported as down over the quarter with a net % balance of -26. This is a return to negative balance following a positive balance from Q3 (net % balance +5).

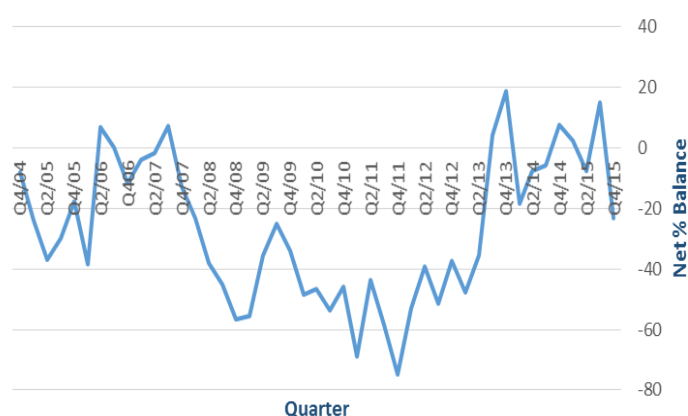
OPTIMISM

Business optimism was negative on balance over Q4 with a net % balance of -17. This is the first time business optimism has entered negative territory in 2015 and is the lowest figure reported since Q2 2013.

“Our business experienced a sales increase of 2.5% in 2015 and despite the challenges we expect for 2016, we have re-structured the business, which will result in an increase to employee numbers. This investment in our people, we expect will allow us to achieve sales in the new year at the same levels as we experienced in 2015.”

Gordon Mitchell, Regional Director, NorDan UK Ltd.

Total Sales Revenue



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q4/15	Q3/15	Q4/14
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	21.4	40.5	38.1	-17	0	-4
Sales Revenue						
Total	20.9	30.2	44.2	-23	15	8
Domestic (Scotland)	21.4	31.0	33.3	-12	18	39
Rest of UK	19.5	19.5	14.6	5	-5	13
Exports	7.7	12.8	7.7	0	5	17
Online	20.9	18.6	16.3	5	20	25
Investment						
Total	18.6	46.5	20.9	-2	10	29
Capital	19.0	50.0	19.0	0	13	6
Training	12.2	46.3	12.2	0	16	13
Cashflow	11.6	44.2	41.9	-30	7	-4
Applied for Credit?			(yes)	23	10	3
Profits	18.6	32.6	44.2	-26	5	25
Capacity Used (Ave. %)				73	72	
Employment						
Total	14.3	59.5	19.0	-5	-8	2
Recruiting Staff			(yes)	42	56	47
Recruitment Difficulties			(yes)	33	22	26
Increased Wages?			(yes)	19	22	29
Average Pay Increase (%)				3	4	5
Pressure to Raise Prices						
Wage Costs			(yes)	28	48	37
Raw Material Costs			(yes)	29	31	35
Expectations Next Quarter						
Price Change	37.2	55.8	7.0	30	22	28
Sales Revenue	41.9	32.6	23.3	19	20	10
Investment	31.0	42.9	19.0	12	8	6
Employees	20.9	67.4	11.6	9	27	

Tourism

GUESTS

The total number of Guests/ Customers grew in comparison with the same time last year for 47.8% of firms, giving a net % balance of +26. This can be attributable to positive net % balance for guests coming from Scotland (+15) and rest of UK (+15). However, more business reported experienced a fall in the number of guests from the rest of EU (-4) and outside the EU (-11).

OPTIMISM

More than double the number business reported decreased optimism than increased optimism in Q4 2015, a net % balance of -25 firms. This net % balance was the lowest recorded for optimism since Q3 2012 and marks the sector's first negative net % balance since Q4 /12.

RECRUITMENT DIFFICULTIES

Recruitment problems are still a major issue throughout the sector, with 53% of firms facing difficulties recruiting in the past quarter.

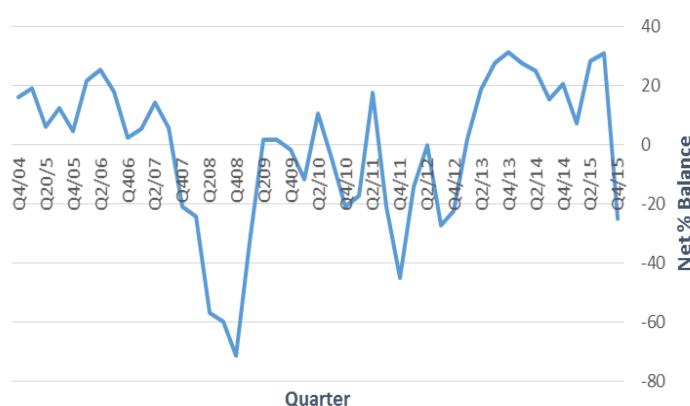
EMPLOYMENT

Employment levels decreased across the sector with a net % balance of -21 reported. The lowest reported level of employment since Q1 2012. Little change to employment is expected in Q1 2016, shown by 78.7% of firms expecting no change to their staff numbers.

“Continuous fluctuations in individual segments of the business do sometimes create mixed performance in each department. However, collectively, the trend overall is positive and we move forward into the future with a degree of confidence supported by the knowledge of the last two years growth.”

David Carey, GM, Galleon Centre

Business Optimism



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q4/15	Q3/15	Q4/14
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism (vs last quarter)	18.8	37.5	43.8	-25	31	21
Sales Revenue						
Total	38.3	23.4	38.3	0	52	24
Domestic (Scotland)	37.8	28.9	28.9	9	32	6
Rest of UK	18.2	27.3	29.5	-11	30	-13
Online	21.7	28.3	19.6	2	31	15
Investment						
Total	35.4	39.6	10.4	25	8	19
Capital	37.5	37.5	8.3	29	12	21
Training	22.9	54.2	6.3	17	15	18
Cashflow	21.3	51.1	25.5	-4	35	3
Applied for credit?			(yes)	29	5	20
Profits	25.0	31.3	39.6	-15	39	18
Employment						
Total	12.8	53.2	34.0	-21	16	-3
Recruiting Staff			(yes)	81	71	52
Recruitment Difficulties			(yes)	53	33	28
Increased Wages?			(yes)	55	39	31
Average Pay Increase (%)				4.0	5	3
Guests/Customers (vs last year)						
Total	47.8	30.4	21.7	26	49	27
From Scotland	34.0	44.7	19.1	15	32	28
From Rest of UK	31.9	36.2	17.0	15	35	18
From Rest of EU	19.6	32.6	23.9	-4	20	46
From Outside the EU	14.9	29.8	25.5	-11	31	33
Expectations Next Quarter						
Price Change	53.2	38.3	8.5	45	24	6
Sales Revenue	20.8	33.3	41.7	-21	-18	20
Investment	35.4	41.7	18.8	17	9	23
Employees	6.4	78.7	14.9	-9	-30	